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25X1

18 December 1974

MEMORANDUM FOR: Chief, North Asia Branch  
Office of Current Intelligence

SUBJECT : Economic Trends in North Korea

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The attached paper represents OER's contribution to an Agency report requested by the NIO for Japan and the Pacific on political, economic, and military trends in North Korea.

25X1

Chief, China Division  
Office of Economic Research

Attachment:  
As stated

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25X1

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Economic Trends in North Korea

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Over the years, this information -- together with the fragmentary information on the domestic economy published by P'yongyang -- reveals that North Korea's success at industrialization has fluctuated with its ability to acquire foreign industrial equipment and technology. This conclusion holds true for developments under the Six-Year Plan (1971-76). The success of this economic plan is particularly important to President Kim Il-song to show the South Koreans and the world the growth that is possible under North Korea's economic system. Thus, for the past year, P'yongyang leaders from Kim Il-song down have been urging the economy forward under a campaign to fulfill plan targets in 1975, one year ahead of schedule. While the North Koreans have done well in acquiring foreign inputs to their economic development, we believe that most

25X1

major industrial and other plan targets will not be met until at least 1976. Such an achievement, however, would be a notable improvement over the record under the extended Seven-Year Plan (1961-70).

P'yongyang has proclaimed several major production goals for a "next prospective plan". With no fixed time frame for this "plan", these figures probably represent propaganda rather than planning targets. Whatever the targets, the next economic plan is likely to face greater obstacles than the current plan. For example, the recent fall off in machinery and equipment deliveries from the USSR may signal Soviet reluctance to continue underwriting North Korea's industrialization, and chronic balance of payments problems may reduce Japanese and West European willingness to supply plant and equipment to North Korea on credit.

#### Recent Developments in Agriculture

North Korea claims that 7 million metric tons of grain -- primarily rice and corn -- were harvested this year. Attainment of the 7 million ton level suggests that the Six-Year Plan target of 7 to 7.5 million tons by 1976 can be reached. This year's bumper harvest is the result of good weather and the increased use of technology -- particularly more chemical fertilizers and improved mechanization.

The North Koreans are apparently using this year's good harvest to help improve their balance of payments. This is a departure from the past when grain trade was used primarily to make up the food shortfalls created by poor harvests. North Korean grain trade commitments in 1974 call for the export of about half of a million tons of rice and the import of about the same amount of wheat and corn (see the tabulation). North Korea is currently negotiating for additional wheat purchases next year. Because of the higher price of rice relative to wheat, these transactions may improve P'yongyang's foreign exchange position.

Food supplies -- most of which are strictly rationed -- are adequate at a low level of consumption. This year there should be no critical shortages such as have appeared in the past. North Korea has also been expanding the production of higher quality food such as fish and poultry. However, much of these goods will undoubtedly be exported and thus will not be available for home consumption.

Early this year the North Koreans increased the non-rice content of the basic grain ration from 50 percent to 70 percent. This unpopular measure has enabled P'yongyang to mobilize additional amounts of rice for export. North Korea will probably continue to try to improve its foreign exchange earnings by selling rice in the world market. Kim Il-song recently claimed that North Korea will have a rice surplus of 1 million tons in 1975.

North Korean 1974 Grain Trade  
(Preliminary)

(Metric Tons)

## Exports-Rice

## Recipient Countries:

Unknown	25,000
Indonesia	400,000*
USSR	<u>100,000</u>
TOTAL	525,000

## Imports-Wheat and Corn

## Countries of Origin:

Australia	150,000
Argentina	140,000 - 160,000
Canada	<u>200,000</u>
TOTAL	490,000 - 510,000

\* Nearly 200,000 metric tons of the total will not be delivered until 1975.

Industrial Expansion

According to North Korean claims for increases in the gross value of industrial production, industrial expansion was ahead of schedule at mid-plan. The claim was that industrial production in 1973 was 60% higher than in 1970, an average annual rate of 17% compared with a plan rate of 14%. However, P'yongyang has provided almost no solid evidence to support this claim. Our production estimates for a few major industrial commodities indicate good progress toward plan goals, with fulfillment possible in 1976 but with industrial growth in the 10% to 12% range rather than the claimed 17% (see the following tabulation).

	<u>Unit</u>	<u>1970</u>	<u>1973</u>	<u>1976 Goal</u>
Industrial production, Official index	1970=100	100	160	220
Electric power	Billion kwh	16.5	19.0	28-30
Coal	Million MT	27.5	33.0	50-53
Crude steel	Million MT	2.2	3.3	3.8-4.0
Cement	Million MT	4.0	5.5	7.5-8.0
Chemical fertilizer	Thousand MT (nutrient content)	320	420	NA
Trucks	Thousand units	10	16	NA
Textile fabrics	Million Linear meters	400	NA	500-600

Among the ambitious goals of the Six-Year Plan are the substantial expansion of capacity in electric power,

25X1

[redacted]

metallurgy, machine building, cement, and textiles and the adding of new industrial sectors, notably petroleum refining and petrochemical production. Given domestic limitations in machine building, imported machinery and equipment provide a substantial portion of any new industrial capacity.

25X1

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[redacted] substantial capacity is indeed being added to these industrial sectors.

The Contribution of Imports to the Six-Year Plan

The success of the current Six-Year Plan (1971-76) depends on the generosity of the USSR and on North Korea's ability to pay for imports of capital equipment from the West. The Soviet Union is building 30 industrial installations in North Korea which will significantly boost capacity in important heavy industrial sectors. Many of these projects are currently under construction and should be complete in 1976. Soviet industrial projects alone will boost steel capacity by 30%, coal output by 30%, electric power production by 40%, and nitrogen fertilizer output by 25%.

As a result of huge imports of Soviet equipment, North Korea accumulated a trade deficit with the USSR during 1970-73 of almost \$600 million. This deficit presumably will be treated as aid and eventually written off.

Nevertheless, the North Koreans have become increasingly wary of continued heavy reliance on the USSR. [redacted]

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-6-

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The purchase of complete industrial plants from Japan and Western Europe is the most significant development in North Korea's trade in recent years. Total plant orders during the first four years of the Six-Year Plan were worth about \$560 million. In 1970, North Korea placed orders worth an estimated \$11 million. Orders for plants jumped to nearly \$230 million in 1973 and to about \$170 million in 1974. When completed, Western plants will add significant capacity to industries producing cement, petrochemicals, fertilizer, and metals.

North Korea's turn toward non-Communist suppliers is beginning to show up in the trade data. Communist countries accounted for 85% of North Korea's total trade in 1971; the share dropped to 70% in 1973 and will probably decrease further in 1974. Last year, for the first time, North Korea's trade deficit with non-Communist countries matched that with Communist countries, as shown below:

		(million US \$)
	<u>Communist countries</u>	<u>Non-Communist countries</u>
1971	239	4
1972	170	73
1973	152	166

-7-

25X1

The tilt to the West also shows up strongly when comparing imports of machinery and equipment from the USSR and capitalist suppliers since 1971. The value of machinery and equipment imported from Western Europe and Japan more than doubled in the past three years, from \$30 million in 1971 to \$75 million in 1973. Part of this increase in dollar terms was caused by currency revaluations and inflationary price increases. Nevertheless, the jump in real terms was sizeable. At the same time, imports of machinery and equipment from the USSR have leveled off at a little more than \$100 million annually during 1970-73 (imports have declined when valued in rubles). The tabulation below shows the growing importance of the West and the relative decline of the USSR as a source of machinery and equipment.

(million US \$)

	<u>Imports of Machinery and Equipment from the USSR and the West</u>	<u>Percent from the USSR</u>	<u>Percent from the West</u>
1971	142	79	21
1972	176	66	34
1973	180	58	42

North Korea's program to rely more heavily on Western sources of supply has been possible because several non-Communist countries have been willing to extend credit financing. P'yongyang has secured an estimated \$500 million to \$600 million worth of medium-term credits in recent years and is attempting to obtain additional loans.

Whether or not these loans are forthcoming will determine the success or failure of North Korea's future industrialization program. The North Koreans apparently are encountering balance of payments problems and have failed to meet some scheduled repayments. Prices have fallen for some of North Korea's primary exports, such as lead and zinc, thus hurting export earnings. At the same time, North Korea is paying higher prices for Western machinery and equipment and high interest rates for commercial loans.

#### Petroleum Imports

Compared to many countries, North Korea is immune from world wide energy problems. Petroleum shortages have not affected economic development. The North Koreans obtain the bulk of their oil supplies from China and the USSR. China is the primary supplier, accounting for approximately 800,000 tons out of North Korea's total petroleum imports in 1973 of 1.5 million tons. Part of the petroleum obtained from China reportedly is covered under a Chinese aid agreement.

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[redacted] the North Korean industrial base has been undergoing major expansion since 1970.

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[redacted] The expansion is particularly evident in the petroleum and chemical sectors. North Korea's only petroleum refinery is basically complete. This installation

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was built with Soviet aid. A major petrochemical complex is under construction that will incorporate plants from France, Austria, and Finland. Other plants under construction or expansion produce electric power, phosphate fertilizer, steel, tractors, and magnesia.

Some of the plants [ ] will be completed during the remainder of the Six-Year Plan. Others are in an early stage of construction and probably will not be finished by 1976.

25X1